Competitive Energy Markets in the Mid-Atlantic
A Retail Supplier's Perspective

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by

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10 Years of Customer Choice History

- Retail competition for energy supply services began in Maryland markets a decade ago, when pilot programs permitting competitive natural gas sales to commercial customers began.
- Since that time, Maryland and the District of Columbia have become fully open to retail gas and electric competition, and some market segments in Delaware and Virginia have also opened.
- Throughout that decade Washington Gas Energy Services (WGES) has participated broadly in every open market and market segment, has served the majority of residential customers who have chosen competitive supply to date, and has been the most vigorous and involved competitive supplier in retail policy and rule development in all of these jurisdictions.

Today's Topics

- Comments today cover two broad issues
  - The status of retail electric competition in mid-Atlantic markets
    - Statistics
    - Observations
  - Effects of rules and policies on competition
    - SOS structure
    - Reaching customers with offers
    - Transacting with customers
    - Leveling the playing field

Commercial Choice Statistics

- Commercial switching statistics are strong across Maryland, D.C. and Delaware.
- While statistics have generally been rising in Maryland and Delaware recently, D.C. and Maryland have seen regression in times when rising market prices push retail offers above prevailing SOS rates.

	Maryland	D.C.	Delaware
% of peak load served	67.4%	47.2%	52.0%
% of accounts served	21.4%	15.2%	5.2%
Active suppliers	18 min.	?	11

- Data is through August 2006 except for Delaware which is June 2006 data

Residential Choice Statistics

- Residential choice is developing in certain markets, but displays a mixed record.
- Peak switching rates in D.C. were once nearly 12%, and over 15% in Pcpco’s Maryland territory. As in commercial markets, statistics drop when SOS rates are below market.

% of accounts switched

	Maryland	D.C.	Delaware
Pepco	5.5%	1.3%	
BGE	0.9%		
Delmarva	0.2%		<0.1%

- Data is through August 2006 except for Delaware which is June 2006 data; residential switching in Delaware is likely approaching 1%

Residential Market Observations

- Six companies are currently making residential offers to BGE residential customers (none were prior to March 2006), three in Pcpco Maryland, and only one each in Delmarva's Maryland and Delaware territories.
- SOS "portfolio" pricing causes competitive activity to vary over time and between jurisdictions - "rules" are fairly similar across Maryland, D.C. and Delaware.
- Rate mitigation plan participation varies widely, due to structural differences: BGE mandatory plan - 100%; Delmarva Delaware Opt-out plan - 50%; Pepco Maryland Opt-in plan - 2%. (approximate figures)
- Customer interest in switching appears to be substantially reduced by rate mitigation plans, even though they were designed to allow for additional savings from competitive supply offers.

Residential Market Observations

- Suppliers have been entering the BGE market with a variety of pricing terms (monthly variable, fixed prices for one or more years). Suppliers also offer products with renewable content.
- Achieving cost savings vs. SOS rates is a favored choice by customers making competitive choices for the first time. Interest in price stability is generally for one-year, but there can be significant interest in longer terms. Residential customers do not behave much differently from commercial customers in this regard.
- Customer confusion in mid-Atlantic markets is high; strong media attention has not driven switching.

Rules, Policies and Competition

- SOS Structures
  - As shown earlier, the development of a stable and growing base of competitive suppliers, and steady progress in customer switching statistics are compromised by SOS structures that are below prevailing market prices for periods of time. Mid-Atlantic markets have demonstrated this fact.
  - The design of rate mitigation plans should provide customers with the opportunity to save with competitive supply, by placing mitigation credits or charges on distribution or non-bypassable portions of the bill. Maryland and Delaware rate mitigation plans are structured this way.

Rules, Policies and Competition

- Reaching Residential Customers with Offers
  - Customer education about energy choice begins when a supplier offer is presented to the customer.
  - Reducing the cost to suppliers of reaching customers allows suppliers to contact more customers more often, and importantly allows marketers to solicit smaller customers.
  - Lack of customer lists severely limits the effectiveness of direct mail campaigns - both Maryland and Delaware are now moving to have electric utilities provide lists.
  - Providing usage data increases offer diversity as demonstrated in mid-Atlantic gas markets.

Rules, Policies and Competition

- Transacting with Residential Customers
  - Different customers prefer to transact in different ways, and they should be allowed to do so. Wet signatures, voice recordings, and internet enrollments are all allowed in the mid-Atlantic, and have proven effective. Note: it appears that all of these options are available to Illinois customers who would like to initiate *utility* service.
  - Providing utility account numbers to suppliers increases customer convenience in enrollment.
  - Slamming has not been a significant issue in mid-Atlantic residential energy markets.

Rules, Policies and Competition

- Transacting with Residential Customers
  - Consolidated billing of utility and supplier charges is a necessity, so as not to erode the benefits of competitive supply with duplicative billing costs. Utility supplier consolidated billing has always been available in the mid-Atlantic at a reasonable cost, and it is a cornerstone of the development of the market.
  - Consolidated billing raises the issues of either the hierarchy of payment applications or the purchase of receivables (POR) by utilities. Utility preference in payment applications, or the lack of POR programs, increase supplier delinquencies and focus supplier attention toward high credit quality customers.

Rules, Policies and Competition

- Leveling the Playing Field
  - Mid-Atlantic regulators have not explicitly addressed proper allocation of costs between monopoly distribution services and generation services subject to competition. “Administrative charges” have been used as a surrogate. Charges per kilowatt hour for large customers have been set much higher than those for residential customers.

Key Recommendations

- Design rate mitigation plans to preserve competition.
- Support the ability of suppliers to reach all sizes and types of customers through the provision of customer lists and data.
- Provide customers with the transactional options they expect including written, phone and internet enrollments.
- Provide cost-effective consolidated billing that does not burden competitive generation with higher billing costs and does not restrict supplier focus to customers with high credit quality.
- Appropriately allocate utility company costs to SOS service.
- Consider alternatives to "portfolio" SOS supply approaches that retard competitive market development.

Key Recommendations

Act Aggressively and Quickly on All Issues!!!

Thanks